Colorado Legislative Council Staff FISCAL IMPACT STATEMENT

Date: September 12, 2006 **Fiscal Analyst:** David Porter — 303-866-4375

BALLOT TITLE: AN AMENDMENT TO THE COLORADO CONSTITUTION CONCERNING A REQUIREMENT THAT IN EACH STATE FISCAL YEAR A SCHOOL DISTRICT SPEND AT LEAST 65% OF ITS OPERATIONAL EXPENDITURES ON CLASSROOM INSTRUCTION, WITH LIMITED EXCEPTIONS.

FY 2006/07	FY 2007/08
\$21,045	\$50,239
0.0 FTE	0.0 FTE
	\$21,045

Other State Impact: None

Effective Date: Upon voter approval; FY 2007-08 is first year of required compliance.

Appropriation Summary for FY 2006/07: Will be addressed through the budget process.

Local Government Impact: School districts will have to track their spending with greater detail and will have to reallocate funds if they do not meet the 65 percent criteria.

Summary of Amendment 39

Amendment 39 requires that at least 65 percent of operational expenditures go to specified classroom expenses. Determination of whether a school district is spending 65 percent as directed will be made using the end-of-year financial audits of school budgets. Classroom expenses - those expenditures that count towards the 65 percent requirement - are defined by the amendment as follows:

- teachers and personnel providing direct support to teachers, such as aides or tutors;
- supplies and equipment used for instructional purposes;
- libraries and librarians;
- instructional services provided to the school district from outside programs; and
- extracurricular activities including, but not limited to, athletics.

Expenses considered to be outside of the classroom include:

- school district office services such as accounting, budgeting, and other district-wide operational tasks;
- salaries and benefits of school administrative and support personnel such as principals, administrative assistants, and nurses;
- salaries and benefits of central school district personnel related to general school district administration; and
- operations and maintenance of facilities.

The 65 percent requirement must be met by all school districts unless they obtain a waiver from the Governor. The Department of Education determines school district compliance with the operational expenditure requirements. School districts that fail to comply are required to work towards the 65 percent by increasing their operational expenditures at least 2 percent each year until they satisfy the requirements of the proposal. The legislature is authorized to impose sanctions on participating school districts that do not comply with the amendment.

State Expenditures

Amendment 39 will only be effective upon voter approval in the November 2006 general election. If approved, total state spending is estimated at \$21,045 in FY 2006-07 and \$50,239 in FY 2007-08 for contract services. Costs are incurred by the Department of Education to determine school district compliance with the amendment and to monitor and assist districts that are not in compliance. These costs represent the hiring of a senior consultant for 3 months in the first year and full time thereafter.

The department currently has access to the expenditure data required to determine the fund split for each school district. The proposal would require a senior consultant to work with the State Board of Education and school districts to properly identify and track school district expenditures. The new staff would also have to work with the districts in cases of non-compliance and waiver decisions. Enhancing the current systems to draw information from the financial audit data to determine the split of operational expenses would require contract programming. Based on an audit conducted on a similar project, roughly \$700 of development time is required (10 hours at a contract rate of \$70.00 per hour). Cost components of Amendment 39 are shown in Table 1.

Starting in FY 2007-08, school districts that do not spend 65 percent of their operational funding on student achievement would need to find ways to meet the requirements of the proposal. This might involve changes at the district level, application for waivers from the state, or an increase in state funding to supplement the district's spending in the classroom.

Table 1 - Total Costs Under Amendment 39		
Cost Components	FY 2006-07	FY 2007-08
Personal Services FTE - Senior Consultant (Contract) Operating and Capital Expenses Computer Programming	\$17,190 0.3 3,155 700	\$45,839 0.8 4,400 0
General Fund Total	\$21,045	\$50,239

School District Impact

Amendment 39 would compel districts to examine their cost structure and, in many cases, adjust their accounting practices to capture the level of detail required by the proposal. School districts that do not spend 65 percent of their operational funding on specified classroom expenses beginning in FY 2007-08 would need to find ways to meet the requirements of the proposal. An investigation of FY 2004-05 data shows that 166 of 178 school districts will be impacted by the requirements of Amendment 39. In total, \$278.4 million would need to be reallocated.